

25 YEARS

FRIEDBERG'S

COMMODITY & CURRENCY COMMENTS

Friedberg Commodity Management Inc.



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Should the Fed worry about inflation?

Is the rate of inflation about to accelerate? Should the Fed tighten at its August meeting? On both counts, we believe that the answer is yes.

The official view has been that the economy has been growing at a moderate pace, thus producing little or no inflationary pressures. Of late, the tight labor market has given the Fed some concern, and it is for this reason — and this reason alone — that any talk at all has surfaced regarding a possible monetary tightening.

The more “monetary” elements in the Bank and in the financial community have argued that monetary aggregates have been growing at a moderate pace and that they were likely to continue producing near-stability in prices. We have not subscribed to this view in the past and instead expected price inflation to accelerate.

We reasoned that fiat money systems were inherently unstable, because there was no precise way monetary authorities could measure the demand for money, let alone what money was. By fixing the “price” of money, the central bank was in the same position as a bureaucrat in an erstwhile socialist economy trying to determine a “proper” price to equate the demand and supply of shoes; the attempt would inevitably fail, and the economy would produce either too many or too few shoes. In the case of the monetary authorities, they would either produce inflation or deflation. Since it was always easier to err on the side of too much rather than too little, it was a cinch to believe that the modern economy was condemned to suffer inflation.

This is exactly what happened, although inflation has, as yet, *not accelerated*. The Fed achieved a non-trivial (2.5%-3.5%), but stable, rate of inflation for the past decade for which there is a perfectly “normal” monetary explanation. The Adjusted Monetary Base, our best proxy for Fed-created supply, grew at a relatively high but stable 8% per annum from 1985 to 1994, and has grown 3% since then. Narrow money supply (M1), our best proxy for demand (how much non-interest bearing money people demand for transaction purposes) grew at a slightly lower pace, indicating at the very least, a slight excess supply.

In addition, on balance, our very rough model shows more periods of excess supply than of excess demand (79 months versus 58 months) — see Chart 1. If we restrict our

observations from the period following the 1987 crash, we find that the growth in the monetary base exceeds the growth of narrow money by a more significant margin, somewhere between 1.5% and 2.0 % per annum. As well, periods of excess supply exceed by almost a four-to-one margin periods of excess demand.

While inertial price inflation and quality improvements account for some of the 3%+ per annum rise in prices, little benefit was obtained during these years from the alleged gains in productivity (anecdotal and statistical).

The results are even more dramatic if we use Total Checkable Deposits instead of M1 as our proxy for the de-

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Contributions by Albert D. Friedberg, Peter O'Sullivan and Sholom Sanik.

Futures and options trading is speculative and involves risk of loss. Past trading results are not indicative of future profits.

IMPORTANT NOTICE

As usual, we will not be publishing an issue in August. *Friedberg's Commodity & Currency Comments* will appear in September. In the meantime, be sure to keep in touch with our telephone Hotline Update report for up-to-the minute advice.

mand for money (see Chart 2). From 1985 to the end of 1995, the Adjusted Monetary Base increased by 1.7 percentage points per year more than TCD. From 1988, the excess growth was a significant 3.4 percentage points per year, *almost exactly equal to the increase in the consumer price index for the period*. Clearly, the Fed was inflationary.

And yet, as we have pointed out, inflation has not accelerated. Provided the Fed is not forced to monetize because of some unexpected occurrence (another crash?), it can probably manage to keep inflation within the present bounds, even if it was at the upper end of the range. In terms of our simplified model, it needs only to restrict the creation of money to approximately the rate of growth of demand. Observing the pace of narrow money over the most recent past can serve as a useful, though imperfect and crude, proxy as we suggested. We have grave doubts, however, whether the Fed's own model can accomplish this task.

In this respect, it should be noted that in recent months narrow money has shown negative growth, with the year-on-year change at -2.4%. In view of the falling demand for money, the Fed should become increasingly more concerned with the inflationary implications of its eclectic and economic growth-focused policies.

The accommodative stance taken by the Fed in recent years, as we have seen, has so far had only a minor impact on price inflation — but an extraordinary impact on asset inflation. A steeply positive yield curve for most of the period under review has unleashed speculative juices not seen since

the Roaring Twenties. Security prices of all shapes and forms have been swept up in this great financial orgy.

In much the same way as central bank inflation in Japan and the Nordic countries during the '80s caused real estate prices to soar (and price inflation to remain modestly and deceptively low), the Greenspan Fed is inflating global security prices without much affecting inflation. The subsequent crash in Japan (in its fifth year and counting) and in Sweden, Norway, and Finland is only a small foretaste of what is to come, unfortunately to most of the industrialized world.

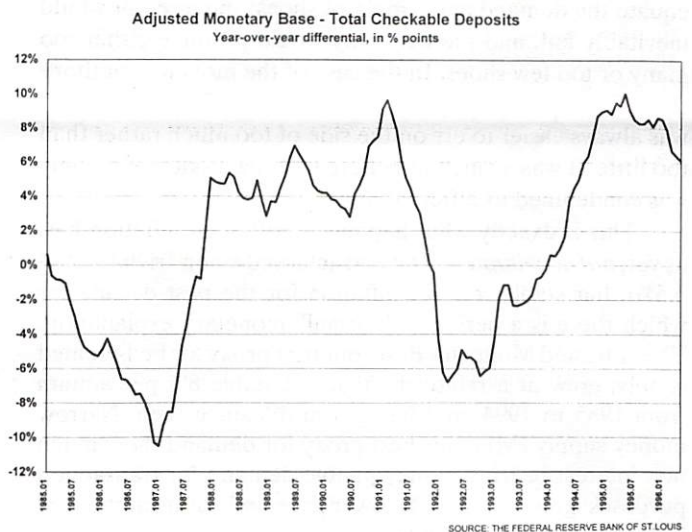
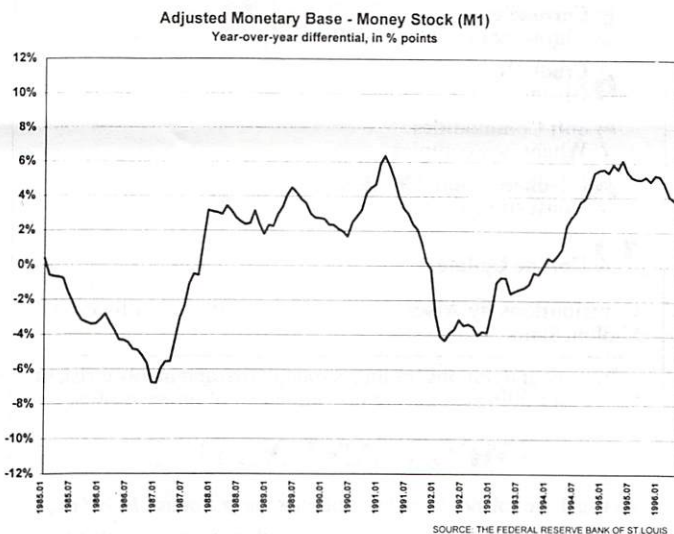
Cheap money is adding industrial capacity at an unsustainable pace and is also adding layers upon layers of debt in the consumer sector. Asset inflation is temporarily "covering up" this vulnerability. When this asset inflation ends — necessarily because of inflationary pressures and the Fed's belated reaction to them — the problems will surface.

In sum, the mild and stable price inflation of recent years has been caused by the Fed's "printing" a moderately excessive supply of money. Its more notable effect has been the creation of a highly speculative asset bubble, which has spread globally, thanks to the unrestricted movements of capital around the world. Slowly, price inflation too will accelerate as the demand for money continues to fall.

Because the Fed is not paying attention to the "monetary" side of the economy, it is sure to react too little and too late. But when it does, asset prices will come tumbling down, exposing the real economy to a potential depression.

Chart 1

Chart 2



INTEREST RATES

Bulls beware: rate increases on the way

As discussed in our opening remarks, the Federal Reserve's monetary stance is too easy, especially now that the demand for narrow money has begun to decline. A rate increase, and perhaps a number of them, may already be pre-ordained. This does not bode well for bond bulls.

STRATEGY: *We have turned our attention to finding a favorable exit. We believe this opportunity will come in the next few days. In the meantime raise stops to 107.27, good anytime, basis the September contract.*

Chart 3



STOCK INDEXES

Correction, or the real thing?

Is the July decline merely a sharp correction or the beginning of the end of the long bull market?

The bullish "correction" case is simply that the market has had a normal (and first in 6 years) 10% correction; the more speculative NASDAQ has been reined in, and the bull is ready to charge ahead. Moreover, the drop of Tuesday, July 16 saw record high volume as the market mounted a spectacular recovery/reversal on the close. Finally, the "spike" decline broke the triple lows of March/April/May but managed to close above the lowest low, indicating that a possible bear trap had been set.

On a more negative note, the long and significant uptrend connecting the lows from December 1994 has been broken (see Chart 5), leaving overhead a massive supply of stock (and \$125 billion of new money that went into funds during the February-June period). Sentiment has not as yet turned deeply pessimistic: Market participants speak somewhat bearishly but act strangely complacent, as one can gather from the short selling activity of the little investor (see Chart 6). Finally, deteriorating breadth has preceded this decline, a sign that the advance is getting increasingly more narrow and selective.

Earnings continue to surprise as the latest figures have yielded an unusual amount of positive news. As in the recent past, the real boost to operating profits has come from continued downsizing rather than from sales growth, which has remained moderate. An analysis from the approximately 25% of the S&P 500 companies that have so far reported second-quarter earnings shows that 32% have topped forecasts by more than 5%. Only 16% have failed to meet expectations. This information is provided by First Call, which monitors analysts' forecasts.

It is not unusual, however, for stock prices to peak while earnings are still expanding as market participants sniff a coming contraction. In fact, an earnings model based on industrial material prices is predicting an outright and imminent year-on-year decline in S&P 500 earning per share (see Chart 4).

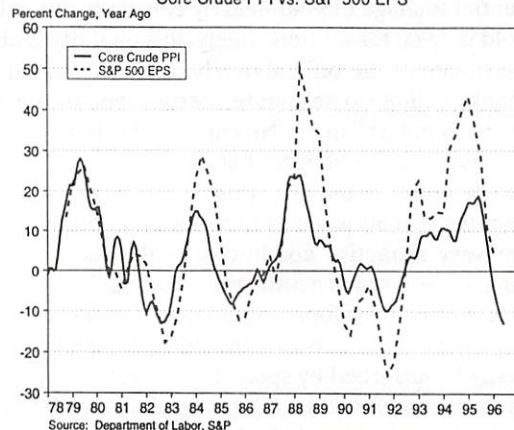
The balance of evidence is negative. Nevertheless, the action of July 16 leaves room for caution before an outright bearish posture is taken.

STRATEGY: *Remain sidelined for now. Establish new short position on a close below 629.00, basis September '96.*

Chart 4

Earnings At Risk

Core Crude PPI vs. S&P 500 EPS



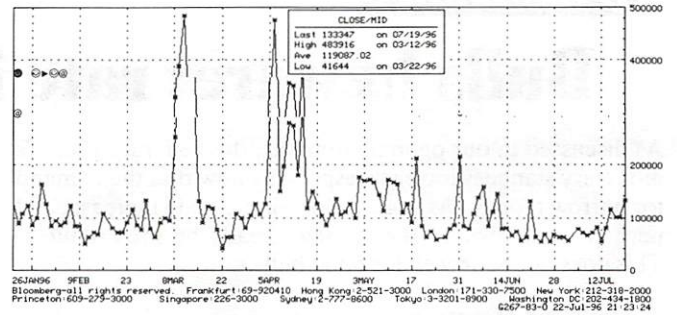
Source: Department of Labor, S&P

Merrill Lynch & Co.
Global Securities Research & Economics Group
Economics Department

Chart 5



Chart 6 – NYSE ODD-LOT SHORT SALE



GOLD

Patience, patience

The gold market is literally falling asleep. The range for the past 4 weeks was a mere \$5.50/oz., while option volatilities have declined to 25-year lows. Bullion imports into the main Asian centres have slowed down, with Hong Kong imports down 55% in the first 4 months of 1996, and Japan imports down 52.4% in the first 5 months of the year. In spite of the lacklustre physical offtake, prices have steadied, finding support just above last September's lows.

Mr. James Cross, manager of the South African Reserve Bank from 1987 to 1995, presented an interesting paper at *The Financial Times* Annual Gold Conference held in Venice. He estimated that the secondary, or deposit, market — the financing source for forward sales in gold and other hedging operations — has more than doubled in size in recent years and now stands at 2,100 tons. Mr. Cross calculated that the total potential tonnage of gold held by central banks willing to lend gold is 7,900 tons. Interestingly, this quantity is about half our estimate of the official overhang, i.e., gold held by central banks willing to sell under certain conditions (see "Why we are so bullish" in our November 1995 issue).

It is reasonable to believe that a willing seller of gold would also be willing to mobilize this asset in such a way as to maximize returns. This leads us to believe that ultimately — and under very attractive conditions — the secondary, or deposit, market will reach a little more than 13,000 tons.

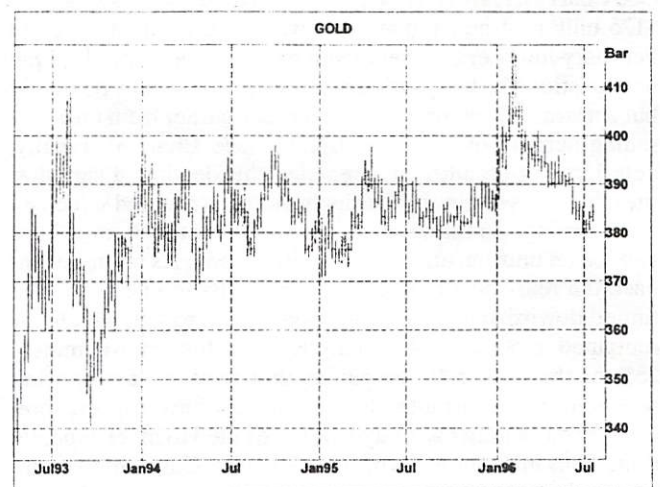
This quantity may look formidable — and indeed it represents almost four years of fabrication demand — but it should easily be absorbed by speculators through the highly leveraged derivative markets. (Consider that at \$400/oz., it amounts to, give or take, \$164 billion, representing only slightly more than the inflow into US mutual funds for the

first 5 months of this year).

To our way of thinking, the rout in gold shares has had a salutary effect on the technical condition of the bullion market: It has shaken out the weaker element, putting the market on a more solid footing for the next upleg. Contrary to popular belief, the next uptick in interest rates will probably be a bullish development for gold, because it will signal the existence of growing inflationary pressures. Patience is the watchword.

STRATEGY: Continue to accumulate cheap long-term calls. Futures traders are sidelined.

Chart 8



CURRENCIES

Throwing in our lot with the DM

Although rumors persist that the Bank of Japan will raise the discount rate in the very near future, the latest economic news paints a relatively soft picture. Chart 9, prepared by ISI Group, presents some preliminary estimates for the second quarter of the year. It concludes that real GDP may have *declined* at a 3% annual rate. If these estimates prove correct, it is not likely that the BOJ will tighten.

At any rate, Euroyen futures have been building in a 50-basis point rise with a great deal less fanfare than "scares" of last February and May. The effect on the foreign exchange market, when and if it comes, should therefore be minimal. There is as yet, then, little reason to abandon our bearish yen position (*vis à vis* the deutschemark).

The very soft Bundesbank view on the internal and external value of the deutschemark was underscored in recent days by Bundesbank President Hans Tietmeyer's declaration that he saw no reason why the dollar should not return to the strength he had seen in recent months or even higher. He also saw "no reason whatsoever for interest rates to rise in the foreseeable future" even as June M3 was still showing an annualized growth of 9.6%, well above the Bundesbank's target corridor of 4%-7% growth.

Such is the sad state of money around the world that we are left with little choice (with the exception of New Zealand of course) but to throw our lot with the deutschemark!

Although it may be a bit early, we are beginning to sense that a reversal of the US dollar may be in the wings. Stand by.

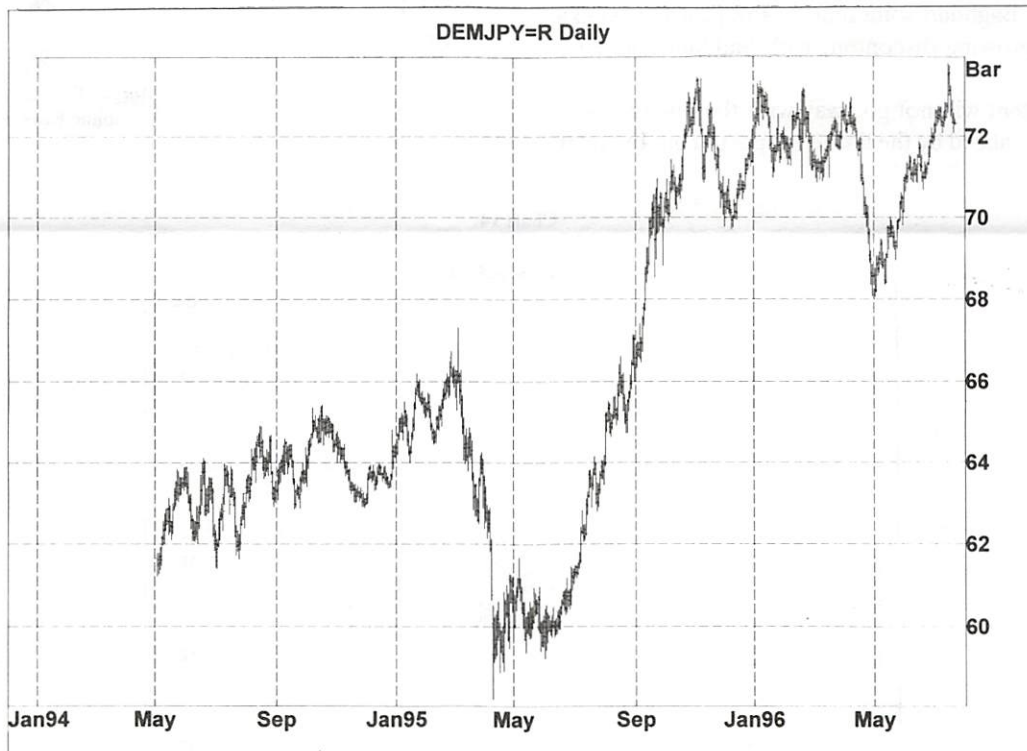
STRATEGY: *Clients remain short yen against long deutschemarks and New Zealand dollars.*

Chart 9
Japan: Key Indicators

	Q/Q% 96:1Q	Ann. Rate 96:2QE
Real Retail Sales	20.8%	-6.8%
Real Consumer Spending	12.4%	-7.0%
Industrial Production	1.5%	1.2%
Housing Starts	27.4%	13.2%
Govt Spending	26.3%	5.0%
Adjusted Real GDP	10.7%	-1.0%
Leap Year Factor	2.0%	-2.0%
Real GDP	12.7%	-3.0%

Source: ISI Group

Chart 10



CRUDE OIL

Oil and the Saddam factor

Here's an interesting bull market. The first and second nearby prices rise in response to tight supplies, while the 12th nearby price and more deferred contracts remain locked in a range capped by an 18.50/barrel ceiling.

Energy Market Consultants (EMC) has revised world oil consumption upwards once again, this time to 2.3 million barrels a day from the latest IEA forecast of an annual average increase of 1.7 million barrels a day. Most of this acceleration is concentrated in non-OECD areas where EMC is now projecting average growth this year of about 5.5%. As an example, China's oil demand jumped by almost 400,000 barrels per day (b/d) during the first half of 1996, causing oil imports to surge to about 720,000 b/d, while oil exports have fallen further, to approximately 410,000 b/d (see Chart 12, expressed in millions of tonnes; 1 metric ton = 7.33 barrels).

According to EMC, stocks are continuing to fall behind last year's levels, especially when measured in days of supply. By September, EMC estimates a 60-day supply, compared with 64 days' supply a year earlier.

The UN's preliminary approval of the Iraqi oil-for-aid deal makes it likely that Iraqi oil will start flowing in August. This caused prices to fall last week by \$1/barrel. The uptrend nevertheless, remains intact.

An additional plus to this market is the ever-present possibility of conflict in the Middle East. Rumors of an aborted coup in Baghdad sometime in the past few weeks underscore the growing discontent with Saddam Hussein's regime.

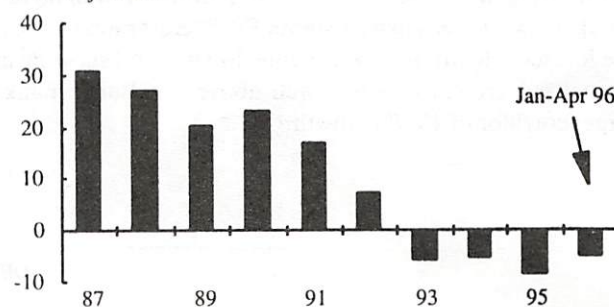
This discontent will not go away with the few prospective dinars to be realized by the limited export of oil. In fact it

may even grow, because it is quite certain that most of the money will go into the pockets of the circle closest to Saddam. To divert his country's attention, Saddam could decide to launch a new attack, adducing necessity and, of course, US imperialism. UN Resolution 986 may well turn out to be what the Versailles Reparations Treaty was to Hitler — an opportunity to build an empire.

STRATEGY: Clients are long September crude oil at 20.58 as per Hotline Update with stops at 19.95, close only. For those keen on a cheap and pure play on war, buy December 1996 out-of-the-money calls, spending a maximum of \$60-\$100 per option.

Chart 12

China: net exports of oil
million of tonnes



Morgan Guaranty Trust Company
Economic Research

Chart 14



SOFT COMMODITIES

Wheat

Like the underlying markets that reflect their dynamics, the supply/demand fundamentals of a commodity can be just as erratic and unpredictable. What? Well, we lived through the spring believing that the US winter wheat crop was a total disaster. Some regions were in fact total writeoffs. These very pages issued dire warnings about the looming shortages with the results of the US winter wheat crop being cited as the primary culprit. Foreign crops were being touted as the bulwark against all-out carnage.

The exhaustive USDA tour of the wheat fields that provided the basis for the June crop report, however, proved to be no match for the count of the actual harvest. Where the June crop report predicted that only 79% of planted acres would be harvested, compared with 88% last year, the July 12 crop report upped the harvested acres to 63.1 million acres, which represents a somewhat closer to normal 83.4% harvested-acres-to-planted ratio. All of which brought us a winter wheat crop that was only 4% below last year's and a total 1996-97 crop of 2.263 billion bushels, which is expected to exceed last year's crop by 3.5%.

All the while, the USDA was trumpeting the bumper crops being achieved in countries around the world that would bring us a crop of some 578 million tonnes of wheat compared with last year's 536 million tonnes. In the meantime, the villains turned out to be the significant others, like Australia, Canada, and Russia. While the July USDA crop report showed a 5.08 million tonne increase in the US crop over the June estimate, the world estimate was slashed by 8 million tonnes. A sampling of the contributors:

Australia: Fantasies earlier in the year of a 20 million tonne-plus crop are now faded memories. An ambitious planting campaign should still give the Australians a bigger crop than last year, but poor precipitation caused the USDA to lower even last month's forecast to 17.5 million tonnes from 18 million tonnes.

Canada: Acres contributed from oilseeds and other crops will give Canadian farmers an above-average wheat crop of 27.5 million tonnes. This estimate could be on the high side, because the yield needed to achieve this size crop is a bit optimistic given widespread seeding delays.

Russia: In regrouping from last year's pathetic 30 million tonne crop, the Russians will harvest a crop of 37 million tonnes according to the USDA. Again, this is reduced from the June estimate of 39 million tonnes.

The acid test, of course, is demand, and we move back Stateside to examine exports. While corn limps towards the finish line of its marketing year with net cancellations, wheat starts off its marketing year with a bang, recording outstanding sales that are already ahead of last year's pace.

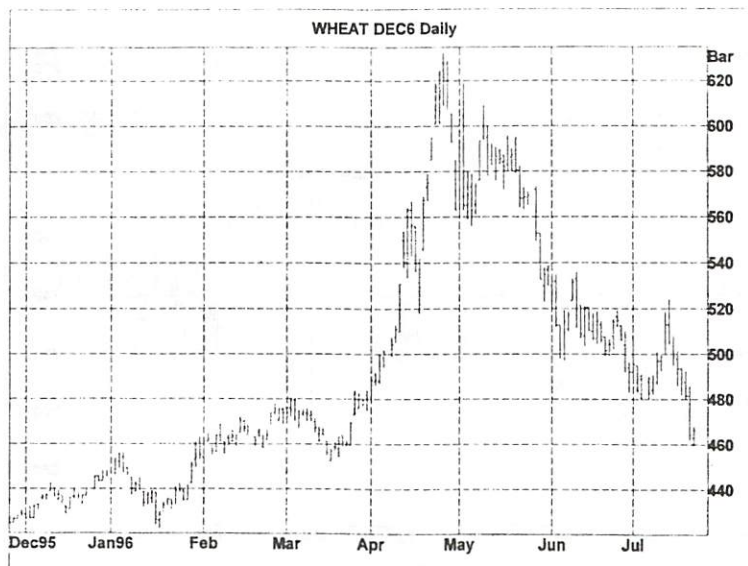
This is in stark contrast to the USDA's early slashing of the estimate of US exports for 1996-97 to 975 million bushels, down from last year's 1.235 billion bushels. Although it's *really* early in the season, exports at the current pace would actually give us a total figure of 1.09 billion bushels. This would make things pretty interesting, because it would lower ending stocks to 313 million bushels *vis à vis* the USDA's 428 million bushels, leaving us with a stocks-to-consumption ratio of 13.04% against the USDA's 18.7%.

Although the chart of December wheat looks like a meteor out of control headed for Times Square, technical factors that we hold to be reliable present a healthier picture. The sentiment indicator that we track shows the most negative reading since *March 1995*, confirmed by open interest figures that show a significant washout of weak speculators.

Buying wheat at this moment would clearly represent an exercise in bottom-picking, a dangerous activity for traders. The ongoing insatiable global appetite for better foodstuffs, though, combined with crops that have not fully recovered from the poor yields of 1995-96 are setting the stage for a buying opportunity.

STRATEGY: *Stand aside, but keep in touch for further direction.*

Chart 15



Soy complex

Only a fortnight ago, enticed by the slogan "no rain, no grain," the soybean market and its kid brothers, meal and oil, embarked on a summer trip that seemed destined to leave all that were bullish with some fond memories. Dryness in the growing regions instilled fear in the hearts of traders and hedgers alike. They had become complacent with the idea that acres lost to a corn crop that couldn't fully make it into the ground on time because of a very wet spring would give US farmers plenty of unexpected land to plant soybeans on. As the rains stayed away, fears of drought ran rampant. In a period of only six trading sessions, November beans rallied exactly one dollar from an inter-day low of \$7.25/bu. to an inter-day high of \$8.25/bu.

However, in what has become an annual rite of July, the meteorologists forecasted poorly and the rains came, causing the beans and their products to return to home base in just another six trading sessions. As we go to print, November beans sit at \$7.4075. A good buy or good-bye?

In any analysis of these volatile markets that we trade, the most reliable indicator that we have is the market itself. "The trend is your friend," is probably the single most useful adage to adhere to for achieving success in trading. At the end of the day, price is a reflection of all the knowledge, information, and wisdom that lurks in the shadows and actually makes markets move where they do. We therefore respect this wicked downturn and will examine the supply and demand factors to determine if our bullish outlook still has merit.

On July 12 the USDA raised US 1996-97 production ever so slightly to 2.315 billion bushels — an increase of 7.5% over last year. This was widely expected and represented little change from last month's crop report. Above all, on the day of the report, it was viewed in a neutral/bullish light. Consequently, it is clear that the market views this crop forecast as

modest, given the beneficial precipitation that resulted in the subsequent sharp drop in prices. Even private forecasters who are firmly entrenched in bull mode, like Bill Gary of *Price Perceptions* (July 13), have added to the USDA's production figure, albeit slightly. Thus, trying to build the case from the US supply side will not cause much excitement.

A close look at the export side, though, keeps us very much interested in this market. The USDA has been raising the 1995-96 export tally month after month to bring us to 835 million bushels, which is of particular significance, because that figure now surpasses the record exports of 1994-95 of 825 million bushels. Actually, based on the export figures of the last few weeks, which have been steady but a bit below average, the actual final figure might look more like 820 million bushels, which is still a blockbuster. In addition the USDA raised its forecast for next year's exports by 20 million bushels from last month's estimate, to 825 million bushels.

The sum total of it all is that ending stocks will be only 185 million bushels, which is quite a disappointment, because this is 25 million bushels less than last month's estimate. The actual figure of ending stocks is very close to this past season's ending stocks. If this figure could be used, when viewed in the context of a ratio of consumption, as an indicator of what could keep beans at these still very rich levels and perhaps beyond, then we have our bullish case.

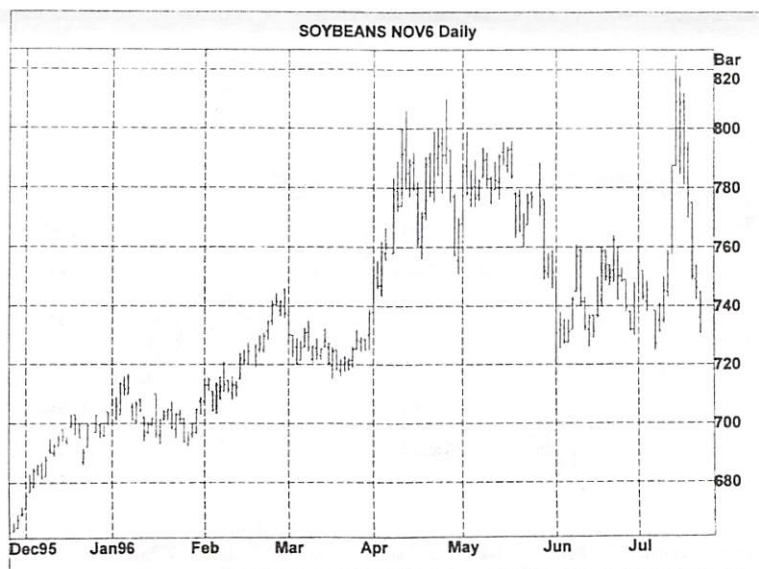
Again, we refer to *Price Perceptions* and its estimates. It has juiced 1996-97 exports up to 850 million bushels, leaving ending stocks at a dangerous level of 131 million bushels.

We reiterate that if there is tightness down the road, the most fun will be in soybean meal, because it is where the great Far Eastern demand lies. Any meal that is available will be hotly pursued.

STRATEGY: *Maintain long position in October '96 soy-meal, with stops at 226.00, good anytime.*

— Sholom Sanik

Chart 16



FRIEDBERG CAPITAL MARKETS

Convertible bonds

You may have noticed that our recommended convertible bonds have one thing in common: All have been issued by companies that have in one way or another lost favor with the market. We feel that this often presents a strong investment opportunity, because a bearish attitude towards these securities can leave them undervalued. In particular, we can estimate the investment value (the value of the bond without the convertible feature) and then compare it with the market price of the security to see if any premium is incorporated in the price of the convertible for the conversion feature.

To estimate the investment value, we use a universe of straight bonds of a similar credit rating and establish an average yield curve. We identify what the investment value should be in terms of yield for an individual security and compare it with the bonds' present yield to maturity (YTM). Where the YTM is greater than the average yield, we conclude that the convertible feature is costless. Here are two recommended convertibles:

NovaCare Inc.

Security: Convertible/callable subordinated debentures

Maturity: January 15, 2000

Par amount: \$100.000

Yield to maturity: 9.930%

Coupon: 5.500% semi-annual

Outstanding: \$175 million

Recent price: \$87.250

Stock price: \$7.375

Conversion price: \$26.650

NovaCare is a leading provider of contract therapy services to nursing homes. It is also a leading operator of outpatient rehabilitation clinics as well as the largest operator of orthotics and prosthetics centers.

Over the last three years, the company has increased its debt load slightly relative to market capitalization; however, in absolute terms the debt load remains relatively low (see Chart 17). Liquidity is quite good, with the current ratio consistently above 2 times and no indication of a declining trend. The profit margin and interest coverage ratios were healthy except for the most recent quarter where they have deteriorated significantly.

A closer examination of the company's financial statements shows two things. First, a one-time charge of \$13 million was taken for the restructuring of operations and certain administrative functions. If not for this charge, earnings would have been approximately \$1 million, leading to positive profitability and coverage ratios. Secondly, the sale of the medical rehabilitation hospital operations gave rise to a decline in revenues that was not completely offset by a decline in operating expenses. Presumably, the company will work to regain lost efficiencies in this reorganization.

This debenture at present yields 9.93%, which is only 7 basis points below the average yield of straight bonds of a similar credit rating. The implication is that the embedded call option on the convertible comes virtually cost-free. The current stock price (see Chart 18) is close to the 24-month low of \$5.00, and

the conversion price is significantly above the 24-month high of \$16.50. Although currently far out of the money, the free option will provide additional value to the investor as the stock appreciates.

Sports and Recreation Inc.

Security: Convertible/callable subordinated notes

Maturity: November 1, 2000

Par amount: \$100.000

Yield to maturity: 13.390%

Coupon: 4.250% semi-annual

Outstanding: \$75 million

Recent price: \$71.000

Stock price: \$7.625

Conversion price: \$25.500

Sports and Recreation Inc. is a specialty retailer of sporting equipment, footwear, and apparel. The company has increased its debt level dramatically over the last 3 years, representing 69% of the growth in total assets. Over this period, the company has been able to maintain a strong short-term liquidity position (see Chart 17).

Currently the company is having some difficulty in generating an adequate return on the dramatic increase in assets. Profit margins as well as interest coverage have been declining. The company reported that the earnings loss in the most recent quarter was the result of new stores not yet being established in their respective markets and underperforming stores, some of which the company plans to close. As a result, it plans a one-time charge of approximately \$50 million in the second quarter. The charge will also incorporate allowances for slow-moving and obsolete inventory. As part of this initiative, Sports and Recreation is implementing plans to reduce costs across the board, while implementing new management control and inventory management systems.

The notes have a yield to maturity of 13.39%, which is 230 basis points above the average yield of straight bonds of a similar credit rating. The market is perhaps less optimistic than the assigned rating would suggest. However, given a growing US economy, low unemployment, and company initiatives to streamline operations, there is an opportunity for significant yield pick-up as well as a cost-free call option on the company's equity.

The current stock price (see Chart 19) is close to the 24-month low of \$4.25, whereas the 24-month high of \$28.375 is greater than the conversion price. The option will again provide additional value to the investor as the stock price increases. This value will be maximized if the stock reverts to and surpasses its previous 24-month high.

STRATEGY: *If you're an aggressive investor looking for high-yielding opportunities from fallen angels, consider these securities. They offer attractive yields similar to or better than bonds with no convertible feature. You are therefore obtaining a call option at virtually no cost while earning a substantial return.*

— Peter O'Sullivan

Chart 17

Name	Total Debt to Mkt Cap			Current Ratio		
	3 Year Average	Recent Quarter	Recent Annual	3 Year Average	Recent Quarter	Recent Annual
Novacare Inc.	33.53%	44.58%	42.42%	3.05	3.33	2.61
Sports and Rec Inc.	95.99%	211.91%	230.98%	4.48	3.79	4.29

Name	Profit Margin			EBIT/Interest Exp		
	3 Year Average	Recent Quarter	Recent Annual	3 Year Average	Recent Quarter	Recent Annual
Novacare Inc.	7.46%	-4.48%	6.84%	7.97	-2.92	6.41
Sports and Rec Inc.	3.39%	-0.24%	1.33%	10.21	0.85	1.97

Chart 18

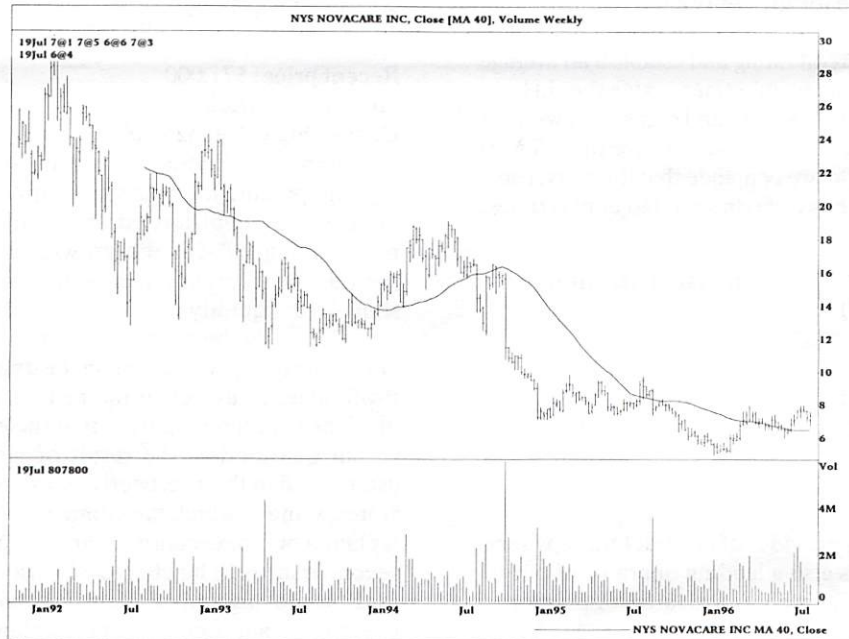


Chart 19

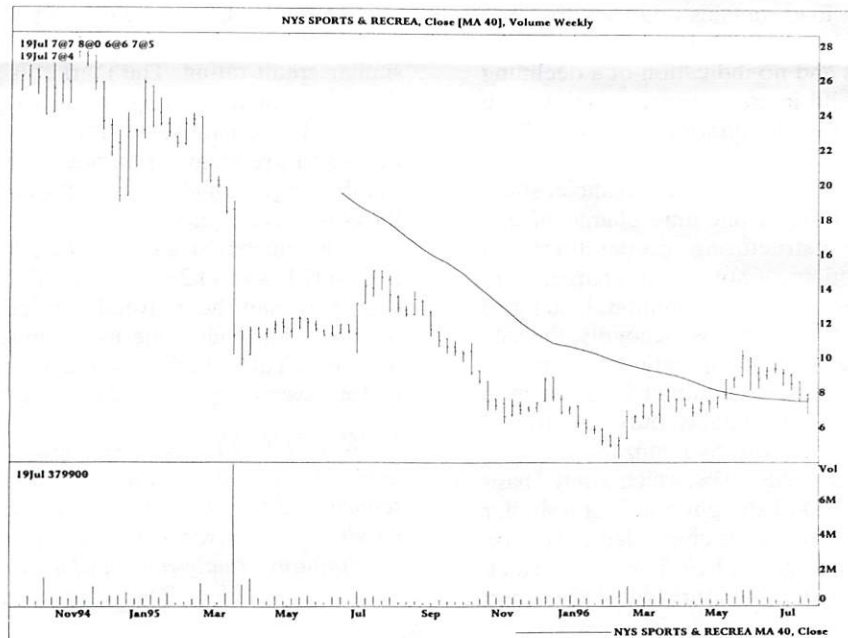


Chart 22 – FOREIGN CURRENCY BONDS

DATE: July 19, 1996 We offer the following Bonds subject to change without prior notice. Minimum US \$5000 (CDN \$7000)

ISSUER / COUPON / MATURITY DATE	BID	OFFER	YTM	CURR. COUPON	NEXT INTEREST PAYMENT DATE
DEUTSCHE MARK DENOMINATED BONDS					
World Bank 5 7/8% 4/02/97 RRSP eligible	100.55	-	-		Feb-04
World Bank 7 1/4% 13/10/99 RRSP eligible	107.00	107.85	4.56		Oct-13
World Bank 9% 13/11/00 RRSP eligible	116.65	-	-		Nov-13
Kingdom of Denmark 6 1/8% 15/04/98	102.75	-	-		Apr-15
Argentina 8% 5/10/98	102.35	-	-		Oct-05
Kgdm. of Spain (6 Mo. LIBOR-1/16) 29/6/02 (semi)	99.94	100.24	-	3.34766	Dec-30
CZECH REPUBLIC KORUNA BONDS					
General Electric Cap. Corp. 10.5% 23/10/98	99.25	100.10	10.40		Oct-23
Nordic Inves. Bk 10.625% 10/11/00	99.40	-	-		Nov-10
Intl. Fin. Corp 10% 30/4/98	99.15	100.00	9.95		Apr-30
SWISS FRANC DENOMINATED BONDS					
General Electric Cap. Corp. 4 3/4% 2/7/98	101.90	-	-		Jul-02
General Electric Cap. Corp. 4 1/2% 17/12/99	104.00	-	-		Dec 17 1996
DANISH KRONE DENOMINATED BONDS					
Kgdm. of Denmark 9% 15/11/96	100.85	101.70	3.27		Nov-15
ECU DENOMINATED BONDS					
United Kingdom 9 1/8% 21/02/01	111.30	112.15	5.99		Feb-21
BRITISH POUND DENOMINATED BONDS					
European Invl. Bk. 7% 22/12/98	100.80	101.65	6.22		Dec-22
JAPANESE YEN DENOMINATED BONDS					
World Bank 5 3/4% 7/8/96 RRSP	99.65	100.50	-		Aug-07
CANADIAN DOLLAR DENOMINATED BONDS					
Eksportfinans 7 3/4% 5/11/97	101.75	-	-		Nov-05
Royal Bank of Canada 9 1/8% 7/1/97 RRSP eligible	101.10	102.35	3.67		Jan-07
Ontario Province 10 5/8% 15/7/98 RRSP eligible	107.95	109.20	5.57		Jul-15
SOUTH AFRICAN RAND DENOMINATED BONDS					
ESCOM 11% 1/6/08 (semi)	77.35	78.20	14.98		Dec-01
AUSTRALIAN DOLLAR DENOMINATED BONDS					
Toronto Dominion Bk. Aust. 7.25% 26/2/99 RRSP eligible	98.10	98.95	7.66		Feb-26
NEW ZEALAND DOLLAR DENOMINATED BONDS					
World Bank 12.5% 25/7/97 (semi) RRSP eligible	103.65	104.50	7.76		Jul-25
World Bank 8.25% 30/4/99 RRSP eligible	100.15	101.00	7.81		Apr-30
New Zealand Gov't 10% 15/7/97 (semi)	100.15	-	-		Jan-15
New Zealand Gov't 8% 15/7/98 (semi)	98.40	99.25	8.42		Jan-15
Fletcher Challenge 10.75% 15/12/97 (semi)	99.80	100.65	10.22		Dec-15
Fletcher Challenge 10.15% 30/11/98 (semi)	99.10	99.95	10.16		Nov-30
Tranz Rail Ltd. 10% 15/10/99 (semi)	100.00	100.85	9.68		Oct-15
Trans Tasman 9% 27/6/99 (semi)	88.40	89.25	14.02		Dec-27
St. Luke 8.7% 1/4/99 (semi) CV @ 1.00 p/sh	114.35	115.35	12.05		Oct-01
ARGENTINEAN PESO DENOMINATED BONDS					
Bocon Pre 1: 1/4/2001		<u>PAR VALUE</u> 134.9668		<u>IRR</u> 13.53	May-01-97
U.S. DOLLAR DENOMINATED FIXED CONV. BONDS					
Atari Corp. 5 1/4% 29/4/02 CV@16.31 p/sh	65.75	-	-		Apr-29
Coeur D'Alene 6% 10/6/02 CV@ 26.00 p/sh	89.25	90.75	8.03		Jun-10
U.S. DOLLAR DENOMINATED FIXED RATE BONDS					
Queensland Tres. (Gold Bull) 2% 4/3/98	92.40	94.40	-		Mar-04
World Bank 7 1/8% 27/9/99 (semi) RRSP eligible	101.95	102.80	6.14		Sep-27
T.W.A. 12% 3/11/98 (semi)	96.40	97.25	-		N/A
U.S. DOLLAR DENOMINATED FLOATING RATE NOTES					
Kgdm. of Denmark 25/3/97 (Gold call, JY put), (semi)	90.50	-	-	7.534	Sep-25
United Kgdm. 30/9/96 3 mo. LIBID-1/8 (qtlly), callable @100	99.88	100.18	-	5.2500	Sep-30
Canada Gov't 10/2/99 3 mo. LIBOR - 1/4 (qtlly), callable @ 100 RRSP eligible	99.66	99.96	-	5.25	Aug-13
Bocon 1/4/01 (30 day LIBOR) starts paying May 1, '97	114.15	115.00	10.35		May-01-97
Argentina: Series L:FRB 31/3/05, 6 mo. LIBOR+13/16 (semi)	76.00	77.50	12.27	6.249375	Sep-30
Venezuela: DCB: 18/12/07, 6 mo. LIBOR+7/8 (semi)	72.45	73.30	13.90	6.625	Dec-20

GOLD (in ounces, at market prices, can also be held in your bond account) client eligibility determined at point of sale.

Chart 21
Recommended current portfolio allocations

1. Queensland (Gold Bull)	15%	5. Czech Koruna	15%
2. Trans Tasman 9% (NZ\$)	10%	6. New Zealand Gov. (8%)	20%
3. Venezuela DCB	5%	7. PRE-1	25%
4. St. Luke CV	10%		

HOTLINE UPDATE

Tuesday, June 25, 1996:

Good afternoon for Tuesday, June 25. There are no changes or new recommendations.

Friday, June 28, 1996:

Good afternoon for Friday, June 28. We have one new recommendation: Liquidate long December cocoa at the market, cancelling the 13.45 stop, good anytime.

Tuesday, July 2, 1996:

Good afternoon for Tuesday, July 2. There are no changes or new recommendations.

Friday, July 5, 1996:

Good afternoon for Friday, July 5. There are no changes or new recommendations.

Flash Update, Tuesday, July 9, 1996:

Good morning for Tuesday, July 9, 9:45 am. This is a flash update. Buy September crude oil at the market, presently trading at 20.58.

Tuesday, July 9, 1996:

Good afternoon for Tuesday, July 9. We repeat the flash update of this morning to buy September crude oil at the market, then trading at 20.58.

Flash Update, Wednesday, July 10, 1996:

Good afternoon for Wednesday, July 10, 3:15 pm. This is a flash update. Buy September S&P at the market, presently trading at 658.00, placing stops at 652.35, good anytime.

Flash Update, Friday, July 12, 1996:

Good morning for Friday, July 4, 11:00 am. This is a flash update. Sell September S&P at the market, presently trading at 649.40, placing initial stops at 657.00, good anytime.

Friday, July 12, 1996:

Good afternoon for Friday, July 12. The following is a recap of this week's recommendations.

- On Friday, June 28, we advised to liquidate long December cocoa at the market, cancelling the 13.45 stop, good anytime. On Monday, July 1, December cocoa opened at 14.10.
- On Tuesday, July 9, we recommended to buy September crude oil at the market, then trading at 20.58.
- On Wednesday, July 10, we advised to buy September S&P at the market, then trading at 658.00, placing stops at 652.35, good anytime. Please note that this position was stopped out.

- This morning, via flash update, we recommended to sell September S&P at the market, then trading at 649.40, placing initial stops at 657.00, good anytime. Please note that the S&P 500, as of the close tonight, has broken the uptrend line that goes back all the way to December 1994. This represents a very significant development and could usher in the long awaited bear market.

Flash Update, Monday, July 15, 1996:

Good afternoon for Monday, July 15, 5:00 pm. This is a flash update. Cover Short August gold positions at the market, cancelling the 390.50 stop.

Flash Update, Tuesday, July 16, 1996:

Good morning for Tuesday, July 16, 8:45 am. This is a flash update. Sell September copper at the market, presently trading at 87.80.

Tuesday, July 16, 1996:

Good afternoon for Tuesday, July 16. There are no changes or new recommendations. We repeat the flash update of this morning to sell September copper at the market, then trading at 87.80.

Flash Update, Thursday, July 18, 1996:

Good afternoon for Thursday, July 18, 1:30 pm. This is a flash update. Cover short September S&P positions at the market, presently trading at 645.00, cancelling the previous stop of 657.00, good anytime.

Friday, July 19, 1996:

Good afternoon for Friday, July 19. There are no changes or new recommendations. This is a complete summary since our last market letter dated June 23, of all liquidations of open positions and new recommendations that remain outstanding.

- On Friday, June 28, we advised to liquidate long December cocoa at the market, cancelling the 13.45 stop, good anytime. On Monday, July 1, December cocoa opened at 14.10.
- On Tuesday, July 9, via flash update we advised to buy September crude oil at the market, then trading at 20.58.
- On Monday, July 15, via flash update, we advised to cover short August gold positions at the market, cancelling the 390.50 stop.
- On Tuesday, July 16, August gold opened at 385.80. On Tuesday, July 16, via flash update, we advised to sell September copper at the market, then trading at 87.80.

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